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SUBJECT: TAIWAN ARMS SALES: IMPACT LIMITED TO "SHORT-TERM," SCHOLARS SAY, BUT "FURTHER CONSEQUENCES" LIKELY

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Classified By: Charge d'Affaires, a.i., Dan Piccata.
Reasons 1.4 (b) and (d).

SUMMARY

[11](#). (C) The fallout from the October 3 announcement of arms sales to Taiwan will be limited to the "short-term," because PRC leaders know the U.S.-China bilateral relationship is "simply too important" to jeopardize, according to three Beijing scholars. The sales take place against a backdrop of "very stable" U.S.-China relations and follow President Bush's successful visit to the Beijing Olympics, meaning the overall relationship remains on "solid ground." Nevertheless, "further consequences" in the near-term are likely, with one scholar predicting increased PLA missile deployments across from Taiwan and larger Chinese defense budgets. Other scholars were skeptical of such moves by the PLA, but one said Beijing is still likely to take additional limited steps to signal its displeasure. Another scholar argued that the arms sales will increase opposition to helping the United States with the financial crisis, a prediction echoed in the lukewarm (though commercially reasonable) response by a Chinese financial entity to U.S. encouragement to help more with the sluggish T-bill market. Cross-Strait relations will be affected temporarily but not significantly by the arms sale announcement. The United States should take "proactive steps" to get bilateral relations back on track, the scholars recommended, in part because the PRC leadership is "forced" to take a tough line to maintain "face" -- and the Party's legitimacy -- in the eyes of a nationalist Chinese public. End Summary.

"SHORT-TERM" IMPACT ON BILATERAL RELATIONS

[12](#). (C) Following the October 3 announcement of U.S. arms sales to Taiwan, the Chinese Government announced that it would postpone or cancel 10 military-to-military events in 2008, and "suspend" cooperation on four bilateral arms control and nonproliferation matters (refs A and B). Three Beijing scholars whom PolOff met this week stated that this kind of arms sales-related fallout will be limited to the "short-term." Professor Jin Canrong (protect), Associate Dean of International Studies at Renmin University, told PolOff on October 9 that the arms sales take place against a backdrop of "very stable" U.S.-China relations resulting from seven years of hard work by the Bush Administration, including the President's successful visit to Beijing for the Olympics in August. Chinese policymakers also noticed and appreciated that the sales were timed to avoid any negative impact on the Olympics. Therefore, Jin concluded, despite the arms sales, many Chinese feel a sense of "gratitude"

toward President Bush and the United States, keeping the overall bilateral relationship on "solid ground."

¶13. (C) Other scholars separately agreed that the arms sales' effect on bilateral relations will be temporary. Liu Jianfei (protect), Professor at the Central Party School's (CPS) Institute for International Strategic Studies, in a meeting with PolOff on October 8 said U.S.-China relations are "much larger" than just the Taiwan issue, so there will be "no fundamental change" in the nature of the relationship, which remains in "very good" shape. Xue Fukang (protect), Vice Chairman of the CPS-affiliated think tank China Reform Forum, made a similar point on October 7, asserting that PRC leaders know U.S.-China relations are "simply too important" to do anything that might put the overall relationship at risk. China's leadership remains "completely unified" on the need for cooperative U.S.-China relations, CPS's Professor Liu stated.

¶14. (C) As to precisely how long these "short-term" effects might last, Renmin's Jin Canrong thought that by November, after the October 9-12 Party Plenum has ended and a "decent" interval passed since the sales, most aspects of the bilateral relationship will begin to return to normal. Military-to-military cooperation, however, will require more time, Jin said, speculating that mil-mil relations will only fully recover once a new U.S. administration has taken office. Neither the CPS's Liu nor CRF's Xue would predict exactly how long the negative effects of the sales will last, though both were adamant that the arms sales will not impact the long-term health of the relationship.

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DOMESTIC PRESSURE FORCES TOUGH PRC LINE

¶15. (C) Chinese leaders have been "forced" to adopt a tough line, at least in the near-term, in order to maintain "face" -- and Party legitimacy -- in the eyes of a nationalist Chinese public, the three scholars separately argued. Many Chinese feel the U.S. move has caused PRC leaders to "lose face," CPS's Professor Liu said, given that the arms sales announcement occurred after China "helped" Washington by holding massive amounts of U.S. debt and supporting the United States during the financial crisis. Chinese leaders thus have no choice but to take action to appear "strong" on Taiwan, Liu asserted. CRF's Xue agreed, cautioning that Chinese public sentiment will serve to "constrain" Chinese policy options and flexibility in the near-term. Nevertheless, in this context, China's response to the arms sales has been "reasonable, measured and in no way extreme," Xue asserted. Supporting this view, Renmin's Jin thought the Chinese Government's rapid and forceful response was designed not only to appeal to public sentiment, but also to enable the Government to get the response to the arms sale out of the way and quickly "move on" to other matters.

¶16. (C) There has been no shortage of sinister theories floated on the Internet and in the press to explain U.S. intentions behind the arms sales. These theories, which have credibility in the Chinese public opinion market, argue that the United States sold weapons to Taiwan because Washington is worried that cross-Strait relations are improving "too quickly," both CPS's Liu and CRF's Xue said. Other commentators say the sales demonstrate that Taiwan remains a "tool" of the United States in "containing China," and that Washington hopes to keep Taiwan "forever" separate from the Mainland, Liu stated. Still others see the move as an U.S. electoral political ploy, designed to help the Republican candidate John McCain, Xue added. A desire to support the U.S. arms industry was yet another likely motivation for the sales cited by many Chinese, Liu and Xue said.

"FURTHER CONSEQUENCES" LIKELY

¶ 7. (C) There will likely be "further consequences" for the bilateral relationship in the near-term, the three scholars separately asserted, though they each predicted different specific outcomes. Increased People's Liberation Army (PLA) missile deployments across from Taiwan, as well as increased PLA defense budgets, are two "likely" PRC responses, CPS's Liu Jianfei asserted. "Many" scholars, including several affiliated with the PLA, as well as the PLA itself and "other PLA interest groups," are loudly advocating for more missiles and money so as to "offset" the effect of U.S. arms sales to Taiwan, Liu claimed. When asked whether senior leaders such as President Hu Jintao would agree to these steps, Liu said Hu and others "would not dare" stand in the way, emphasizing the "power" of the "PLA interest group." Further curtailment of military-to-military dialogues is another likely consequence, according to Liu.

¶ 8. (C) Renmin's Jin Canrong was skeptical that consequences would include a PLA response. He cautioned that "one should be careful to distinguish between bureaucratic budget politics and a PRC leadership decision," and argued that it is only natural that the PLA will use the arms sales as a means to lobby for more defense spending, a standard tactic in bureaucratic budget battles the world over. President Hu Jintao's focus, however, is elsewhere, Jin averred. Following a tumultuous year that witnessed massive snowstorms, Tibetan unrest, a devastating earthquake and the Olympics, Hu Jintao is keen to promote the "Scientific Development Concept," his primary domestic slogan and key to his political legacy, not engage in a dispute with the United States over Taiwan. CRF's Xue agreed, claiming that China is not considering any "military" response to the arms sales, while nevertheless arguing that China is "highly likely" to take limited steps to cancel additional bilateral dialogues, similar to what has been done thus far.

¶ 9. (C) China's efforts to help respond to the financial crisis may also be "complicated" by the Taiwan arms sales, Renmin's Jin Canrong argued, noting that this could be the sales' most likely "immediate impact." Jin said that "friends" such as Yu Yongding, a prominent economist and head of the Research Institute of World Economics and Politics at the Chinese Academy of Social Sciences (CASS), have been advocating that China actively join in efforts to "bail out" the United States from the financial crisis, but only in

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conjunction with other major economies. In the aftermath of the Taiwan arms sales, however, opposition has increased to Chinese participation in a "bailout" plan as advocated by Yu, Jin noted.

¶ 10. (SBU) Echoing this concern, a DDG level official at State Administration of Foreign Exchange (SAFE) noted to EconOff and FinAtt on October 9 that China's "politicians" are now sensitive to opinion in the popular media and on the web, and the announcement of Taiwan arms sales has made it "difficult to take certain actions." The meeting involved a technical issue important to increasing T-bill liquidity in New York markets; the DDG's statement was a response to U.S. officials urging SAFE to take actions that would increase their exposure to U.S. markets. The SAFE official was not reading off points, and was not at all opting to use the Taiwan issue to threaten the United States. (Full meeting reported SEPTEL.)

EFFECT ON CROSS-STRAIT RELATIONS?

¶ 11. (C) Cross-Strait relations will be affected temporarily but not significantly, as Beijing remains determined to improve ties with Taipei, the three scholars separately agreed. CRF's Xue claimed the leadership's primary concern following the arms sales was the possible impact on cross-Strait ties. Many officials and scholars wonder why the United States would take such a step at this particularly

"critical" (guanjian) time of dramatic improvements in cross-Straight relations. The majority of Chinese remain "highly skeptical" of U.S. arguments that the arms sales contribute to cross-Straight stability, given that relations between Beijing and Taipei are already as stable as they have perhaps ever been, Xue said.

¶12. (C) While Chinese leaders will not be able to simply ignore Taiwan's purchase of weapons from the United States, Beijing is nevertheless committed to continuing cross-Straight dialogue and expanding ties between the two sides, the scholars agreed. For example, CRF's Xue said China still wants Chen Yunlin, Chairman of the Association for Relations Across the Taiwan Strait (ARATS), to travel to Taiwan in October as originally scheduled. Xue argued that Chen's trip is more at risk from opposition by the Democratic Progressive Party (DPP) within Taiwan than it is from any fallout over the arms sales. Renmin's Jin agreed that Chen Yunlin's trip is unlikely to be cancelled over the weapons deal, but whether the trip happens will be determined by "technical talks" that will take place shortly between the Mainland and Taiwan. One consequence of the sale is disillusionment with President Ma Ying-jeou on the part of some Mainland observers, CPS's Liu Jianfei stated. Some had previously argued that Ma is not "eternally" opposed to reunification with the Mainland, but the arms sales appear to indicate that, in fact, he is, Liu said.

U.S. NEEDS TO BE "PROACTIVE"

¶13. (C) All three scholars recommended that the United States take "proactive" steps to get bilateral relations back on track. Renmin's Professor Jin recommended U.S. leaders take a "personal" role in restoring ties to normal. A month or so after the announcement of the sales, senior U.S. officials could call their PRC counterparts to express appreciation for Chinese cooperation on various issues. A visit by a senior USG official before the end of the Administration would also be a welcome gesture, Jin said. CPS's Professor Liu recommended that the United States publicly state its support for improved cross-Straight ties, to counter the widely held impression that Washington's concern over cross-Straight rapprochement drove the sales. QRF's Xue Fukang, who was concerned by the Chinese impression that the arms sales were designed to "contain" China, argued for U.S. public affirmation of the importance of the bilateral relationship, as well as for doing something "concrete" to show that the United States does not view China as the enemy, such as lifting some of the restrictions on technology exports to China. Regardless, all the scholars agreed that proactive U.S. efforts, together with the passage of time, can restore bilateral relations to "normal."

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